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THE

QUARTERLY JOURNAL

OF

ECONOMICS

OCTOBER, 1887

THE THEORY OF BUSINESS PROFITS.

President Walker invites criticism of his theory of business profits,* and, presumably, of the theory of wages it is designed to supplement. Responding to the invitation, I wish to present some reasons why, in my opinion, both theories must be rejected as untenable. As Professor Alfred Marshall has expressed a general agreement with Mr. Walker, I shall take the liberty of examining, in conjunction with Mr. Walker's views, several passages of *Economics of Industry* bearing on these subjects.

The mode by which Mr. Walker seeks to maintain his theory of the manager's earnings is certainly marked by great ingenuity. Much that he says is undoubtedly sound and just. In large part, it is a contention that high business capacity is a rare gift, and that the possessors of this gift, being able to perform highly useful service in production, are able also to obtain large rewards for their labor. This would be to apply to busi-

* See *Quarterly Journal of Economics*, April, 1887, p. 288.

ness management the familiar law of monopoly wages, coupled with the principle that the highest success in every calling is due to something in the nature of a personal monopoly, as against the general body of competitors in the same business. If this had been all, the adherents of the old views would find little ground for criticism. Here, if anywhere, they might be expected to agree with Mr. Walker; for here certainly is a case of wages depending on production and a case of labor rewarded out of product rather than out of previous savings. But the agreement, I am sorry to say, must be a qualified one, extending not much beyond the fact that the employer's personal wages are, by as much as they exceed ordinary wages, the result of monopoly. As to the elements that constitute the monopoly, Mr Walker's theory will hardly win general acceptance. His view is that the dearth of natural ability is everything, or so nearly everything that the other elements may safely be neglected. He argues as if the born manager, on coming of age, had only to whistle the proper note, in order to have all the requisites of production laid at his feet. On this point, I can but think that the general verdict will be more nearly in agreement with Professor Marshall, in holding that the necessity of having capital and training is a much more influential element in constituting the monopoly than the lack of men with the requisite talent.* For myself, I think the "captain of industry," now that he has found recognition, is in some danger of getting overdone. I cannot forget that, for all but the highly gregarious industries,— which, after all, do but a small part of the world's production,— this splendid captain is and must remain a rather mythical personage. I rejoice to think that, for the most part, the business of production, even in some gregarious industries, can be very well man-

* *Journal of Economics*, July, 1887. I understand thus Mr. Marshall's remark that, at a rough guess, he should attribute a tenth part of the extra gains of the successful business man to rent of special ability.

aged by men who have average ability, plenty of common sense, the requisite training, and sufficient energy to devote themselves unflaggingly to the work. Not at all because I wish to disparage the great captain, but because I think the service he does for society consists mainly in the example he sets of improved organization of labor. The world needs inventors there as in other things. When the best mode of conducting the business is demonstrated, a lower grade of talent may well enough suffice for safe and successful management.

It is probable that there are thousands of men born with all the natural gifts required for successful management, who nevertheless fail to get control of business enterprises, solely for lack of the necessary training and capital. Both of these are extremely hard to get. There is no training school for business men but actual business. A man who has no capital cannot even try the experiment of business in a small way, in order to prove his ability. He cannot ask men of capital to put him in charge of their business until he has had training and has proved his capacity and, I will add, his honesty. He cannot borrow, because he has no security to offer for the repayment of the loan. The only course open to him in most cases is to work hard and save hard until he can command capital of his own. This is an ordeal that natural ability for management on the large scale does not help men to face successfully. It demands rather plodding patience and severe self-denial. Even with these, the chances are heavily against great success. Partly by sustained exertions, partly by good luck, the man who begins life without means or backing does sometimes climb to the control of large enterprises; but this, I fear, is the happy event that comes only to few. We hear much of these few, but the history of those who fall by the way is not written. This is my opinion — I admit it is only an opinion — as to the character of the business man's monopoly.

As to the mode by which this monopoly brings its special gains to those who hold it, there will be, I think, a very decided rejection of nearly all the reasoning that Mr. Walker urges in behalf of his theory of business earnings. Let us, in the first place, consider the proposition that the "no-profits" employer regulates the price of each commodity, on the same principle as that on which no-rent lands regulate the price of wheat. One naturally asks why the no-profits employer should have this function, seeing that there are always in every business, as Mr. Walker himself tells us, some employers who are not only making no profits, but are making losses. The products of these losing employers are continually in the market. Why should they not regulate the price, rather than the products of employers who are doing indefinitely better? In the case of land, we take the poorest in steady use as the regulator of price. If we are to have the same rule as regards employers also, let us have it, and take the least efficient employers as the regulators of prices. Mr. Walker seems to me to shrink from applying the principle he announces. What should we think of Ricardo, if, in developing his theory of rent, he had "thrown out of account" several of the poorest grades of land in constant use, in order to find the basis for prices and rent?

But, even if the lowest in the scale be taken, we come upon great difficulties in the application of the principle. How is it to apply in the case of the extractive industries, such as farming and mining? We should have, according to this new doctrine, two descending scales of productiveness, one due to differences in the natural agents, the other due to the varying capacity of employers. Both of these (the foot of the scale in each case) are supposed to be operative in determining the price. The cost of production of that part of the supply which is produced at the greatest disadvantage settles the price of the whole. But what part, on this theory, is produced at the greatest

disadvantage? Unless, by happy chance, the lower end of the one scale coincides with the lower end of the other, unless the least efficient employers have the least productive lands, we lose our regulator of price and our base for reckoning rent. If the least efficient employers should happen to have farms and mines somewhat above the poorest, the consequences would be extremely awkward. The poverty of the poorest lands might be counterbalanced, to an indefinite extent, by the superior business capacity of those tilling them; and the inferior business capacity of the least capable farmers would be offset by the natural advantages of their land. If each of these is to operate in fixing the price, how are they to combine their effects? The produce that comes under the influence of the one escapes the effects of the other. Where shall we look, on this theory, for "that portion of the supply which is produced under the greatest disadvantage"? Also, in this case, how shall the law of rent be stated? How is the "rent of ability" to be distinguished from the rent of the land? On these questions, Mr. Walker gives us no clear information. In discussing the law of rent in his general treatise, he dwells only on differences of soil and situation, as causing one farmer to have larger returns than another. Incidentally, indeed, in connection with another subject, he makes a remark, which, if taken literally, can only mean that, in his theory, all farmers are to be regarded as of the same grade of ability, and all of the "no-profits" class! Comparing the special gains of the successful business man with the rent of land, he says,—"just as the cultivator of soils of the better class has a surplus left in his hands after paying wages for labor and interest for capital employed, which surplus, called rent, goes to the owner of the soil."* If it is assumed that the whole surplus above wages paid for labor and interest for capital goes to the landlord, of course that would obviate the difficulties I have mentioned: all farmers are then of the "no-profits"

* Walker, *Political Economy*, § 284.

grade. But, if that be assumed, what shall we say of the assumption?

Let us now examine the grounds on which the least efficient employers in every industry are credited with the special function of settling the price of the product, as the poorest natural agents do in the extractive industries. In the case of the natural agents, the reason is clear and convincing. As poorer sources of supply have to be resorted to, in the industries subject to the law of diminishing returns, the value of the product rises. But this is because, and only because, other industries are free from the law of diminishing returns. If all industries were subject to that law, neither value nor price would be affected by it, except so far as the decline of returns happened to be more or less sudden in some industries than in others. Wheat, for example, does not rise in value as compared with barley or with dairy products, when inferior soils have to be resorted to; nor does it necessarily rise in value as compared with coal or iron ore, since the same law of increasing cost is encountered in adding to the production of these things. But it does rise as compared with cloth or with shoes or any other manufactured article, since in manufactures there is no law of diminishing returns.

But the differing efficiency of employers is a fact common to all industries, and, by Mr. Walker's own assumption, tapers off to the same precise vanishing point of "no profits" in all. How then, I ask, shall it affect the value or the price of any commodity? If the presence of the "no-profits" employer tends to raise the value of any one product, it must have a precisely similar effect on the value of every other product. If it makes the production of wheat more costly, it also makes the production of cloth more costly in the same degree. It cannot therefore affect the exchanging proportions of wheat and cloth. Neither can it affect prices (*i.e.*, the exchanging propor-

tions of gold and other things), since in the production of gold the "no-profits" employer is present, and must be as potent in affecting the value of the product as he is in every other case. In other words, the presence of inefficient employers in all industries has no more to do with determining the prices of commodities than has the presence of dishonest employers, or (if I may be pardoned the levity) employers with red hair. In saying this, I have no desire to question the fact that important economic results would flow from a dearth of efficient business men. I merely contend that those results must be sought for in another direction than that suggested by Mr. Walker.

The natural effect of incompetence, and the only direct effect, one would suppose, would be small reward or even loss for the incompetent person. Mr. Walker apparently asks us to believe that the effect of incompetence, down to the vanishing point of profits, spends its force on the income of the employer, and beyond that point takes effect on the buyer of the product. Just why it should not spend its whole force on the employer's revenue, changing, if need be, "no profits" into losses, he does not explain. What renders this portion of Mr. Walker's theory all the more strange is that he does not steadily adhere to the assumption that the presence of the "no-profits" employers is a necessity of business. At times, he speaks as if they simply forced themselves, unneeded and unbidden, into the management of business. He cautions us against various courses that tend to give them an opening, and against the maudlin sentiment that deters us from casting them out and punishing them whenever, by reason of their financial embarrassments, the chance offers itself. Why not also caution the community against allowing the poorer grades of land to be cultivated? There would seem, on his theory, to be as good reason for the caution in the one case as in the other. If the least competent employers regulate prices, then prices would be

made higher and not lower by driving them out of business, just as the price of food would be made higher and not lower by punishing men for cultivating poor grades of land. Mr. Walker is thoroughly aware that it is not open to anybody to force up the price of food and the rent of land by needlessly bringing into cultivation land poorer than any hitherto in use. Why should he argue as if the corresponding feat were possible, when incompetent employers "force themselves into the control of business and maintain themselves there at the expense of the community"?

Probably Mr. Walker would admit that his proposition as to the source of the earnings of successful business men must stand or fall with his theory as to the price-regulating function of the "no-profits" business man. Yet the proposition that the successful business man creates by his own exertions the gain he makes is so plausible, and would be so important if it were true, that we may advantageously consider it for a few moments by itself. I observe that in *Economics of Industry* the proposition is limited to strictly productive business. Mr. Walker, on the other hand, applies it to all sorts of business in which profits are made. I believe that in either form the proposition is quite untenable. In the mere statement of it there is, it seems to me, an attempt to ride two horses that face in opposite directions. Professor and Mrs. Marshall tell us: —

> If a manufacturer can improve the method of carrying on his business so that the work of four hundred men produces as much as that of five hundred did previously, then he will gain an addition to his earnings of management equal to the wages of one hundred men. Thus, the earnings of management of a manufacturer represent the value of the addition which his work makes to the total produce of capital and industry.— *Economics of Industry*, p. 142.

This, Mr. Marshall tells us, is to be understood in a literal sense; and, so understood, Mr. Walker adopts it

as expressing precisely the same view he himself holds. Yet both authors are very emphatic in maintaining that every increase in the number of capable business men tends to lower the earnings of management, Mr. Walker going so far as to say that, if the managers of the best grade were "numerous," their earnings, under free competition, would fall to *nil*. Now, each of these views is intelligible; and for each, by itself, some sort of case may be made out. But the attempt to combine the two as a law of manager's earnings leads, in my opinion, to something not far removed from absurdity. For, if a good manager can create as much wealth as one hundred men when good managers are few, he can do the same when good managers are numerous. If his earnings are to be the value of the addition his work makes to the produce of capital and labor, how can mere increase of the number of men capable of thus adding to the produce of capital and labor diminish his earnings? Mr. Marshall, in accounting for the decline, cites, as analogous, the decline in the wages of skilled labor as the number possessing the skill increases. But there is this fundamental difference between the two cases, which renders analogy between them impossible for the purpose in hand. Skilled labor has specific products of its own, which fall in value as the supply of them is increased. But management has no distinct products of its own. All production needs management, and all products cannot fall in value. How, then, I repeat, shall we hold that the earnings of management correspond to the wealth created by the manager's own exertions, and yet at the same time hold that these earnings may fall indefinitely, merely on account of increase in the number of capable managers?

In form of statement, at least, Mr. Walker's theory is a little different at this point from Mr. Marshall's. Mr. Walker treats rather of differences of profits than of profits as such. He would apparently deny the possibility

of profits under free competition, in circumstances that should leave no grounds for differences of profit. In the hypothetical case (with which he begins his exposition) of a small and exclusive class of business managers, "each the precise economic equivalent of every other," he has no suggestion to offer as to the amount of their earnings apart from the needless and highly uneconomic assumption of a combination to "fix a standard for their own remuneration." Yet, if the earnings of management coincide with or represent wealth created wholly by the manager's own exertions, why should the smallness of the managing class or the sameness of their abilities interfere with their getting what they have created? Why should they combine to fix their gains arbitrarily? Does the suggestion imply that by combination they might extort more than they create? or that, without combination, they might lose part or even all of what they create? Apparently, the latter is Mr. Walker's view; for he tells us that, if managers of equal ability became so numerous as to make effective combination among them impossible, the earnings of management would disappear. He frankly avows that, on his theory, under equality of advantages and freedom of competition, he finds "no natural stopping-place" for the fall of business earnings until they reach *nil*. Apparently, the "no-profits" employer is regarded as the necessary buffer to check the fall of profits by keeping up the values or prices of all commodities, a function of which, as we have already seen, the unfortunate man is hardly capable.

It would seem, then, that Mr. Walker's theory is, in reality, not a theory of manager's earnings at all, but a theory of the differences in managers' earnings. By the ingenious but, as I believe, entirely fallacious use of the "no-profits" manager, it is made to wear in part the appearance of a primary law of distribution, whereas it is at best but the necessary appendage to such a law, stating

the allowance to be made for human inequalities in the working of the law. To claim any more for it is much as if one should attempt to develop a law of wages by calling the amount earned by the least efficient laborers "unity" or "*nil*" or "no wages," and showing that every laborer of higher efficiency receives an excess of wages above unity or *nil* or no wages, representing the surplus of wealth he creates over and above the amount produced by the lowest grade of laborers. In fact, by changing necessary words, a very readable article on the "Source of Wages" could be made out of Mr. Walker's article on the "Source of Business Profits." Such a treatment we should scarcely accept as leading to a satisfactory law of wages; yet, in my opinion, it would have somewhat better claims to acceptance than the theory under review.*

In other words, I cannot but regard as unreal and misleading the analogy assumed by Mr. Walker between earnings of management and rent of land. Rent could have at most an analogy to differences of earnings; for the basis of rent is not production, but differences in production. The rewards of human exertion, on the contrary, are primarily for the whole service. If the service be the creation of wealth, and if the amount of wealth created is to be the measure of wages, then there can be no ground in reason for considering anything less than the whole amount created. To lay down individual creation of wealth as the law or the source of business profits, and yet hold that the principle extends only to the surplus over and above the amount created by some other man, is only to deal in contradictions. At most, as already remarked, such considerations could apply only to differences of profit.

* Better, first, in that ordinary productive labor has usually a definite product for each laborer, whereas managing ability has not; better, secondly and chiefly, because it would take in the whole range of differences in wages instead of measuring upward from an arbitrarily chosen point considerably above the lowest returns, as Mr. Walker does in the case of business earnings.

Even as a rule of differences, Mr. Walker's theory could not be accepted without very extensive modifications. Men grow rich by producing much, but they also grow rich without producing anything. Some men are poor because they have produced little, but other men are poor in spite of having produced much. There is, in fact, but little connection between the production and the acquisition of wealth, in individual cases. Mere lucky trading, skilful speculation, taking advantage of the ignorance or the fears or the necessities of other men, corners, craftiness, and even knavery, are often much shorter roads to riches than actual production is. It might be a great comfort to our Vanderbilts, Goulds, and Fisks to be told that their gains represent wealth of their own creation,— if they could be got to believe it!

There is certainly, as Mr. Walker has said, a gain which no man loses; but that is not enough to justify his theory. He is bound to prove that all gain is of that description. So far as I can see, he asks us to take the mere fact of gaining as proof of creating. Not to gain appears to be his evidence of incompetency in producing: to gain large profits is his proof of large creative ability. But till the accidents, uncertainties, and tricks of trade can be got rid of, it would be extremely rash to take the making of gain as proof of anything but the making of gain. Whose exertions created the gain is a question needing other evidence for its determination. Similarly, as regards failure to win profits, we should need to know the causes of the failure before pronouncing the unfortunate man incompetent as a producer. It is, for example, a fair conjecture that in many cases the "no-profits" employer may have actually produced a large addition to the general wealth, but failed to realize it in exchange, owing to the mistakes or bad faith or misfortunes of others, or owing to any of the ten thousand mischances to which every business enterprise is liable.

Before leaving this part of our subject, I wish to point out that, even if Mr. Walker's theory of the earnings of management could be accepted as satisfactory, it would fall seriously short of filling the gap in his system to which Professor Henry Sidgwick called his attention. Mr. Sidgwick's very obvious criticism was that Mr. Walker had "supplied no theoretical determination whatever of the average proportions in which produce is divided between capital and labor." The whole return going to the side of capital is resolvable into Interest, Compensation for Risk, and Remuneration for the Labor of Management. Mr. Walker's theory relates specifically to the last of the three only; though, from the general tone of his treatment, it may perhaps be inferred that he includes the successful management of risk as one of the sources of business gains. However that may be, he certainly makes no attempt to supply a theoretical determination for the rate of interest beyond saying that it is "determined by the relation of supply and demand." He does, indeed, mention the tendency of interest to decline as countries grow older,— to become five per cent. where it has been eight, three per cent. where it has been five. He seems to hold that interest, as an element in distribution, is sufficiently accounted for by noting the rate and its changes. But this is as if a physicist should account for the pressure of the air by giving us the readings of his barometer. On the whole, it is no unfair criticism of Mr. Walker's theory at this point to say that it takes the rate of interest for granted. Further, when "interest is to be deducted," it would be necessary to know whether this means interest on perfect security or on ordinary mercantile security or on such security as the individual employer in each case happens to be able to offer, for interest varies in the same loan market with the character of the security. Also, we should need to know whether, in times of temporarily high interest, the laborers are to be charged at the high

rate on the whole capital of the country or only on the portion actually borrowed at the high rate.

Altogether, the residue theory of wages needs a good deal of clearing up in the region of interest and earnings of management before it can lay claim to completeness as a theory of distribution. It was apparently in order to provide some sort of economic bed for this theory of wages that Mr. Walker invented the "no-profits" theory of profits. When the whole work is done, it seems to me to be little more than a somewhat elaborate statement of the fact that what does not go to the other participants goes to the laborers. By simply transposing terms, the same method would yield an equally valid law of rent, or of interest, or of earnings of management.

It is not the least curious part of the whole system that the author should choose as the residuary legatee of industry precisely the claimant against whose right to the position there is a strong *prima facie* case. For if (to carry the figure a step farther than Mr. Walker carries it) the estate of production should some day go to the probate court, the valid claims upon it of the laboring class would be found, I fear, to be comparatively insignificant. Some slight liens many of them would have undoubtedly; but the great bulk of the estate would go, as a matter of course, partly to those who are entitled to receive rents, partly to those who have managed production, but mainly to those who own the capital. The laborers alone, of all the classes concerned in production, have had their services paid for and quitted, from week to week, during the long periods in which the commodities constituting the estate were being produced. As residuary legatees, they are without the shadow of a case. The very essence of receiving wages is a surrender of the right to appear as residual claimants.

Putting the same fact in another form, it is very clear that the laborers do not own the finished commodities

that come forward for consumption from day to day. Neither have they, of their own, money enough to buy more than a small part of them. The goods are partly rent, partly profits; but, mainly, they only replace capital previously advanced. Some small part, I will admit, may represent wages earned, but not yet paid; though I fear that, if we take into account, as we are bound to do, the shop debts of the laborers, they would be found, as a class, to have nothing owing to them,—to have no lawful title to a residue or any other part of the commodities now awaiting the consumer. These sad and simple facts are of vital importance for the law of wages. They cannot be thrust out of sight or deprived of their significance by even the most skilful dialectics. And, to my mind, they are dead against Mr. Walker's theory,—so dead against it that one finds some call for self-restraint in soberly arguing the matter. Indeed, Mr. Walker himself seems to have felt the weight of the facts opposed to him. He tells us that wages are to be regarded as residual in certain "senses." He admits that in any particular case the employer is, by force of contract, the residual claimant.* Yet he asks us to believe that wages, if not literally a residue, are at least determined precisely as if they were a residue; *i.e.*, by "deducting" or "cutting off" from the whole product of industry the shares falling to the landlord, the capitalist, and the business manager, respectively.

Of his theory, so understood, I will say, in the first place, that it seems to involve a most curious and needless twisting of things out of their proper relations. It is like the picture in a camera, which makes left of right, and puts the feet where the head ought to be. I will say, secondly, that this implied attempt at confession and avoidance does not in the least weaken the force of the simple facts of which I have spoken. These are dead against the proposition that wages are determined as if

* *Political Economy*, p. 265.

they were a residue. It is still a fact that the laborers, in the mass, have already had their wages for producing the commodities now awaiting the consumer. It is still a fact that these commodities and the money to buy them with belong to the other classes concerned in production. How, then, shall the laborers obtain any part of them? What is to determine how great a part they shall receive? In other words, what is the law of wages?

Apart from gift, I see but one way by which the laborers may obtain a share. They must induce those who own the commodities to part with them. But the laborers have nothing to offer in return except labor. Now there are two ways by which the owners of the commodities may turn labor to account: they may find personal services desirable, and may give some of their commodities in return for such services; or they may wish to increase their wealth, and may therefore be ready to give commodities in return for productive labor, on such terms as to gain by the operation. These, I think, are the ways, and the only ways, by which the right to receive and consume any part of the existing stock of goods may be transferred from the first owners to the laborers. If this be so, several important consequences follow.

It follows, in the first place, that the primary question in wages is not, How much has been produced? nor, How much is going to be produced? but, How much of all that has been produced do the owners care to use in hiring laborers? This is fundamental. If true, it must be a primary truth in any reasonable theory of wages. Of course, no sane person would deny — I think no sane person ever has denied — that there is a relation between the rate of wages and the productiveness of labor.* The productive-

* Mr. Walker seems to charge this denial on the Wages Fund theory. In so interpreting that theory, he does not, in my judgment, exhibit his usual penetration. The question between the two theories at this point seems to me to be largely one of mode.

ness of past labor influences the rate of wages by affecting the volume of commodities accruing to employers, thereby affecting their ability to spare from their own consumption. The expected productiveness of future labor will influence the rate of wages by affecting the prospect of gain to be made by hiring on any given terms. But these influences can act on wages only by first acting on savings: they operate not simply and directly, but mediately, through acting on the minds of those who own the existing and coming supply of commodities. Since, therefore, the whole matter depends on human volition, we can lay down no certain rule as to the result, good for all cases. We can only say that, given the savings in any particular case, the rate of wages will result.

It follows, secondly, that the commodities received by the laborers for the work of any given week are not at all products of that same week's labor, but of previous labor, and mainly of labor spent long previously. It is stating the same fact from another point of view to say that wages are, on the whole, paid for producing, not present, but future commodities. If, now, Mr. Walker says that wages are a residue of the whole product after deducting rent and profits, he is bound to tell us particularly which product he means, and what rent and profits are to be deducted. If he means the product of the very labor that is to be paid for, we must remind him that that product is still an unknown quantity, still in the future. Even supposing it a known quantity, wages would still be indeterminate; for, on his own theory, the profits of the future are still unknown, not having been "created" yet. One cannot deduct an unknown quantity from another unknown quantity and arrive at a definite result. Further, even if these unknowable quantities were both known, future products would not avail to pay present wages. The wages of the present must still

depend on the present resources for paying wages. It would be foolish to devise a formula for present wages that might call for more than there is on hand to pay with,— as foolish as to draw up a bill of fare for your dinner without reference to the resources of your pantry.*

If, on the other hand, he means that present wages are determined by deducting from the products now presenting themselves for consumption the rent and profits accruing in respect of their production, his doctrine is relieved of indeterminateness, but at the expense of self-contradiction and of opposition to plain facts. It becomes self contradictory, because its fundamental principle is that wages are the residue, or are determined as if they were the residue, of the product of the labor they reward,— not as if they were the residue of the product of some other labor. If they be the residue of the products of past labor, after deducting the corresponding rents and profits, how would it be possible to increase wages by increasing the efficiency of present labor? Secondly, the theory thus understood would be in conflict with plain fact, because the owners of the stock of finished commodities do not determine how much they shall spare from their own use and apply to hiring laborers, by deducting rent and profits from the whole product they have received. People do not themselves consume their whole income derived from rent, interest, and earnings of management, and save only the balance for use in hiring laborers. If they did, there never could be any increase of capital except such as the laborers might contribute out of their wages. We know

*I readily admit that the comparison fails of exactness at two points. The resources for paying wages may be somewhat increased by greater self-denial on the part of employers, if greater inducements be offered; but Mr. Walker can hardly urge this objection, since, as we shall see later, his theory denies the possibility of the greater inducement. Secondly, if laborers do, in fact, wait even a short time for their wages (do not, *i.e.*, anticipate them wholly through the butcher and the baker), agreements may be made to pay them commodities which are not yet ready in hand, but will be ready in hand when pay day comes.

that, as a matter of fact, income derived from rents, interest, and management, is every day saved and turned into wages. This simple fact stands out, as it seems to me, in flat contradiction of Mr. Walker's theory. It would, in my judgment, be fatal to his theory of wages, even if there were nothing else to be said against it.

For the same reason, I must hold that the authors of *Economics of Industry* have also fallen into error as to the method in which wages are determined. They proceed by first deducting rent and taxes from the whole product of industry: the remainder they call the "Wages-and-Profits Fund." The task they set before themselves is to discover and explain the principles according to which this fund is "shared" or divided into wages, interest, and earnings of management. This method is substantially the same as that followed by Mr. Walker. It is, so far as concerns wages, a process of eliminating or deducting from the whole product of industry the portions called rent, interest, and earnings of management, in order to discover how much remains for wages. It is to be said for the authors of *Economics of Industry* that they do not mistake the statement of the problem for the solution of it. They do not take the rate of interest for granted, but endeavor to take into view all the variable elements in distribution and the action of all the economic forces that go to determine these variable elements. Their one serious error lies in not sufficiently regarding the element of time in their problem. Their procedure involves a sort of economic anachronism. They seem to forget that, if we analyze the total product of industry for any given week into rent, wages, and profits, we are dealing, so far as wages are concerned, not with the wages of that particular week, but with past wages. What they call the "Wages-and-Profits Fund" belongs undividedly to the capitalist class. Strictly, it is to be analyzed into replaced capital and the profits thereon. The portion which re-

places capital corresponds, undoubtedly, to wages paid out previously to laborers. It was saved and invested at some former time or times, and is now recovered with a profit through production.

While, then, it is true that the wages included in the "Wages-and-Profits Fund" of *Economics of Industry* may be regarded as representing real wages, it is also true that no valid law of present wages can be reached by the method followed in that work. It is a method applicable to profits only. Given what the authors call the "Wages-and-Profits Fund," we can argue that, if the part representing wages (past wages) be set off, the remainder of the fund is profit. It is profit because wages were what they were. But it would be quite inadmissible to convert the terms, and argue that wages were what they were because the profit turns out to be what it is. So that, even as a formula for past wages, this procedure would be futile. Further, the past wages replaced to the capitalist in the product of any given week are not the wages of any particular previous week. They were, in fact, paid out, bit by bit, during the whole course of producing the commodities of the week. Partly, they were paid out years before for the labor that made the machinery, buildings, and other plant used in producing them. Strictly, then, a formula derived by this method can only recite the fact that certain sums have been paid out as wages, at various past times, for producing the commodities constituting the "Wages-and-Profits Fund" of the given week. It can give us no light on the question how these past wages came to be what they were. They certainly were not fixed by "sharing" the inchoate products of a week still in the future.

Still less can the method of *Economics of Industry* disclose the manner in which present wages are determined. For here, in addition to the defect already pointed out, it fails, as Mr. Walker's method fails, by setting out with

a wrong assumption as to the precise way in which current wages stand related to, and are drawn from, current production. The authors assume that wages are determined by a process of sharing the results of production, after production is completed. They forget that wages are, with slight exceptions,* paid before production is completed, and that the final products, as they emerge, belong undividedly to the capitalists. To argue as if the employer's right of ownership extended only to the portion representing his profit is surely not a mode of reasoning that can lead to very trustworthy results. Nor is it a whit better to assume that whatever of the total product is profit or rent is on that account lost to wages. No argument ought to be necessary to show that, in reference to any given point of time, rent, profits, and wages are not at all mutually exclusive shares of the products that have just reached completion. Wages, as an economic share, are not contemporaneous with the other two: it is of the very essence of wage-paying that they should not be. The wages that correspond, as an economic share, to the rent and profits of any given time, have been paid and consumed before the rent and profits appeared. They are, in reference to the rent and profits, wages of the past. Rent and profits are contemporaneous and mutually exclusive shares of the completed product. What is rent cannot become profit, nor can profit become rent. If we deduct rent and profits from the whole product, the remainder, as already pointed out, is not the wages of the time we are considering: it is, by the very nature of the case, replacement of capital,—past payments to laborers, now restored to those who made the advances. The wages, on the other hand, that go in time with the rents and profits we are considering, belong, as an economic share, to products that have not yet appeared,—products

* The exceptions are such wages as may be due the workmen who give, so to say, the final touches to the product. Mainly, this would include only the labor of exchange.

of the future. In reference to the products of the time when they are paid, wages are no economic share at all. They are drawn indiscriminately from every part of the existing supply of consumable commodities. They are whatever part of that supply the owners choose to spare from their own consumption and offer for labor. The economic origin of the owner's title to the commodities he offers for labor does not once come into the question. He may have received them as rents or as profits or even as wages, or they may have come to him as replacement of capital. All that is a matter of entire indifference for the wages of the time. The vital question is, How great a part of all existing commodities is offered for labor?

We ordinarily assume that the whole of the replaced capital will be so offered; that the owners, having once before saved and invested this amount, will be ready to do the same again.* But, if we ended here, we should be condemning the laborers of the present time to receive in the aggregate only the same amount that the smaller number received in past years: individual wages, on those terms, must decline. But we know that, as a matter of fact, incomes derived from rents, interest, and earnings of management, are every day spared from their own consumption by the rent and profit receiving classes, and used in paying wages of labor. Any formula or procedure for determining wages that loses sight of this elementary fact, condemns itself in advance to mere emptiness, for it never can accord with the actual state of the case. So far as I can see, every method that proceeds by "deducting" from the whole product, or by "sharing" the whole product, in order to find wages, is doomed

* Of course, this is only an assumption; and in individual cases it is often untrue, especially when ownership changes by inheritance meantime. But, as we are dealing with aggregate, not individual, capital, we may regard the new savings of some as merely offsetting the waste of capital by others. It is only when new savings exceed waste that we regard them as new savings.

to failure on this account. The only process of deducting or sharing that can safely be admitted in the law of wages is the process that takes place in the minds of those who own the products of industry, when completed. Whatever part they choose to deduct from the whole product for their own consumption stands deducted; the rest goes to the laborers,—not, however, to pay for producing these same commodities, but for producing other future commodities. The true shares of the product look to the past, and rest on services done in the course of production, but unrequited till the product is completed. The laborer's service was paid for and quitted, week by week, as the production went forward. In the completed product he has, therefore, no share nor residue, except such as he shall get by the voluntary act of those who own it. This lies, it seems to me, in the very nature of hiring and wages.

The wages-fund theory may not be perfectly satisfactory: few theories are. But it has, at least, the merit of looking squarely at the fundamental fact that working for wages is not working for a share of the product the work finally results in; that men who depend on wages depend on getting commodities belonging to other men. This primary truth, that those who live by wages are dependent on what is spared or "saved" by those who own the world's stock of good things, I have supposed to be the vital and only essential principle of the wages-fund theory. Mr. Walker quotes authority for the assertion that that theory has received its *coup de grâce*. If any theory has maintained that the rate of wages is "altogether irrespective of the industrial quality, the skill, energy, temperance, of the laboring population"; or that it is "irrespective of the efforts of the laboring class, as a body or individually, to better their own condition"; or that, "if the laborer does not seek his interest, his interest will seek him and will find him,"—then, surely,

we ought to rejoice that so false a theory of wages has been given its death-blow. But I must say that, for my own part, I have never understood the wages-fund theory to assert or to imply any such absurdities. How anybody could have so read and interpreted any standard account of the circumstances determining the magnitude of the wages fund, and the rate of wages resulting from it, is to me incomprehensible. As to the point which Mr. Walker emphasizes so strongly as the point of widest difference between his own theory and the wages-fund theory,— namely, the connection between the productiveness of labor and the wages of the laborers,— I should have supposed the only question about which sensible men could differ would be the *mode* of the connection. The wages-fund theory certainly contemplates a very intimate relation between the two; but it insists that the connection is indirect, being effected through the wills and resources of those who provide capital for paying wages. Mr. Walker, on the other hand, seems to maintain that the connection between the productiveness of labor and the rate of wages is of the direct and simple kind, not mediate, through the action of those who save capital,— the same sort of relation that exists between the efficiency of laborers and the product of their labor. The wages-fund theory holds that wages depend primarily on savings, but adds that savings depend very much on production. Mr. Walker holds that they depend primarily on production, and makes no mention of savings, except in a roundabout way. This seems to me to be the essential point of variance between the two theories.

Perhaps the readiest way to illustrate and at the same time test the two views is to consider the hypothetical case with which Mr. Walker closes his article on the "Source of Business Profits." I mean the supposition of "an instantaneous improvement in the industrial quality

of the laboring class, . . . with a resulting increase of ten per cent. in the finished product." Mr. Walker gives no explanation of the process by which, in his view, the increase of product is carried at once to the wages of labor: he only finds no economic reason why it should go anywhere else. But he never once mentions the all-important fact that the increase of product goes, in the first instance, by the very nature of the case, to swell the revenues of those who employ laborers. It is not a case for argument as to their right to receive the increase: it is a case for noting the fact and admitting its consequences. How are the laborers to obtain possession of the increased product and to "receive a benefit from it corresponding to that derived by the residuary legatee, whenever the total value of the estate concerned is ascertained to have been, or by some unanticipated cause becomes, greater than was in contemplation of the testator . . . ?" The only suggestion offered by Mr. Walker of a method by which they may gain immediate possession of this addition to wages is the mention several times of perfect freedom of competition. Free competition is always implied, as a matter of course, in economic discussion, unless the contrary be stated. But I am quite unable to see how competition can effect anything in the premises. All competition can do is to remove or prevent inequalities in wages. It can bring all laborers of the same grade to the same level of wages. But it has itself nothing to do with setting the level. Competition of laborers is powerless to raise all wages, and our present question relates to a general rise. If the competition to which he refers be that of employer with employer to get control of laborers, I can only say that here again all competition of itself can accomplish is to prevent or remove inequalities, to prevent one employer from getting laborers of a given grade for lower wages than another employer pays. Competition simply enforces the level on everybody. It does so by bringing down the

high as often as by raising the low. It is powerless to raise all or to depress all.

Mr. Walker, then, has presented us with a case in which the products coming to employers of labor would be gradually increased ten per cent. He gives us no clew for tracing this increase beyond the hands of the employing class and into the possession of the laborers. He simply tells us that, if his theory be true, it would pass, all of it and at once, to the benefit of wages. An adherent of the theory that wages are paid from savings has at least a reason to give for the result he predicts. He gives mode and process for the working out of his result in practice. He cites the fact that increase of product, wages remaining unchanged, would cause a rise of profits; that both the means and the motives for saving would be greater than before; that increase of capital seeking labor would naturally follow, with the result of raising wages. How rapid and how great the rise would be he would not undertake to predict, because everything would depend on the choice made by those who own the increased product, between consuming it in their own enjoyments and saving it for use in hiring laborers,— a matter as to which no two communities would behave quite alike. It can, however, be safely predicted that a part will be saved, and only a part. An increase of ten per cent. in the whole product would probably double the net profits of employers. It would be mere absurdity to hold that they would spend no more than they did formerly in personal enjoyments for themselves and their families. The whole increase they cannot be expected to save, and so wages cannot be expected to rise by the whole amount of the increase in product.

Mr. Walker's theory seems to me to call for a double miracle in this case: first, that a set of men who are working for gain should surrender without motive the chance to add greatly to their gain; secondly, that the

laborers should instantly receive an addition of (say) fifteen per cent. to their real wages,* before the commodities necessary for paying the increase have been provided. For it is of the highest importance in the law of wages — in fact, it is the origin of wage-paying — that civilized labor does not yield immediately a product good for human use. Neither does an increase of efficiency exert suddenly its whole effect in increasing the enjoyable products of industry. It must have time to work out its full results,— as much time, in the case of each product, as that particular product requires for its production. This, we all know, varies extremely; but in all but a few of our commodities the time is considerable. We should therefore have, in the case supposed by Mr. Walker, an increase of ten per cent. soon, in the case of a few articles; but in most cases several months would be required, and in not a few several years. When, for example, should we have the full effect of this increase of efficiency in the case of wheat or of cotton cloth or shoes or beef or houses or furniture? It is impossible here to follow out any of these cases into the details of their production; but let the reader consider and decide for himself whether in any of these cases, or in the case of most commodities, it would be physically possible that the supply should be increased ten per cent. suddenly by a ten per cent. increase of efficiency on the part of the laborers concerned in the production of it.† If we add the fact that machinery, buildings, railways, ships, and all other plant, are also

* I suppose the ten per cent. increase of product assumed by Mr. Walker would raise wages fifteen per cent., if it passed entirely to wages.

† This point is overlooked, I think, by the authors of *Economics of Industry* in their discussion of the two theories of wages. They say that, when there is an immigration of laborers into a country, "the increase in the supply of labor will increase the net produce of capital and labor, and therefore the Wages-and-Profits Fund" (*Economics of Industry*, p. 205). There can be no question that this result will follow in the course of time. But will it — as a matter of physical possibility, *can* it — happen at once? Must not the increase begin at the beginning of production?

produced by labor, and that the increase of efficiency in this labor cannot take effect until the machinery produced under the new conditions is not only in operation, but has already some of its products ready for consumption, we shall have another element necessary for completing the case. Still another is found in the time required for transportation of materials and finished products from place to place, and in the delays incident to the various changes of hands through which they pass in the course of production and exchange.

On the whole, it is safe to estimate that a year would be required for making anything like the full addition to the current of commodities good for human use that Mr. Walker's supposed case contemplates. If this be even approximately true, from what source shall the commodities come that are to afford the fifteen per cent. immediate addition to wages? Some slight increase may no doubt be made by drawing down the customary reserve of unemployed capital: something may be added also by increased self-denial on the part of those who own the existing stock of commodities, and will own the on-coming supply. But these are small resources on which to count for the means to make a heavy immediate addition to wages. Besides, Mr. Walker expressly says, "There is no greater demand for capital in the case." His theory cuts him off from appealing to these sources for increase of wages: to appeal to these is to appeal to the wages-fund theory. The residue theory must at least be content to wait till the increased product is on the spot, ready to be handed over to the residuary legatee. The only resource to which it can consistently apply for increase of wages, in the present case, is whatever increase of consumable product is actually forthcoming from week to week, which in the early stages would certainly be slight. Even in reference to this, the advocates of the theory must be prepared to tell us more clearly than they

have hitherto done by what precise working of what economic or other principles the employer's right of ownership in the increase of product is to be overcome.

If Mr. Walker's notion of "perfect competition" be that it shall be open to everybody who has, or thinks he has, business ability to set himself up as an employer, then it may be admitted that his reasoning, as reasoning, is excellent; but we should also have to say that it is wholly inapplicable to the world as constituted. If it were possible for all outsiders, in his hypothetical case, to enter into competition with those who control the world's capital, the case would be radically different. To assume perfect competition, where by the nature of the case there must be monopoly, would scarcely be a way of reaching sound conclusions. The only competition which can be relied on to raise wages in the case he supposes, or in fact within a limited time in any case, is, it seems to me, whatever of new rivalry may spring up among the old employers, for the control of labor. The prospect of additional profits may safely be counted on to stimulate every energetic employer into seeking an expansion of his business. But, in order to make use of any laborers he may tempt away from other employers, he must have additional plant and materials. Now, if we are supposing his capital to have been fully employed before, the question arises, Whence is the new capital to come? If the employer is to save more himself, it must be for the sake of higher gains. Yet Mr. Walker maintains that the whole benefit of the improvement will go to the laborers, which would cut off the motive for increased self-denial on the part of the employer. Again, if employers borrow more than formerly, the increased demand for loans will raise the rate of interest; but for borrowing at a higher rate of interest there would be the same absence of motive, if the whole gain of the improvement is to go to the laborers. Putting the same point in another way, if wages

must rise as rapidly as the product increases, no employer has any motive for wishing to get more laborers than before. So that, on Mr. Walker's terms, it is not easy to see whence the demand for labor is to come, that shall raise wages so as to carry the whole increase of product to the laborers themselves.

I hope I have made it clear that the precise point as to which the savings theory and the residue theory of wages must differ is not whether, in the hypothetical case we are considering, there would be a rise of wages: that both theories would agree in predicting. The point at issue, as I understand it, relates to the mode and rapidity of the rise; and the difference of view as to the mode evidently goes back to a difference of view as to the source of wages. At least, if there be no dispute as to the source of wages, I am at a loss to see how there can be any real difference in the case. I have endeavored to get a clear idea of Mr. Walker's precise view on this point, but without entire success. At times, he seems to admit that wages are in the nature of an advance to the laborers; at times, he seems to throw a doubt on the reality of the advance. In one breath, he says, "Wages are, to a very considerable degree in all communities, *advanced* out of capital, and this from the very necessity of the case"; in the next breath, he tells us that "wages are, in a philosophical view of the subject, paid out of the product of present industry." * He heads a chapter with the statement that "The Wages of the Laborer are paid out of the Product of his Industry," and yet, in the course of the chapter, states that, "in those countries which have accumulated large stores of wealth, wages are in fact very generally, if not universally, advanced" to the laborers. While his statements are thus somewhat wavering, I gather that, on the whole, he considers the advance as rather a convenience than a necessity, and rather apparent than real. "*When* the employer shall pay is a financial question; *what* he

* Walker, *The Wages Question*, chap. viii.

shall pay is the true industrial question." * He lays stress on the fact that even in old countries the laborers are not paid oftener than once a week, and in newer countries they commonly wait even longer for their pay, the result being that employers are constantly in debt to their laborers rather than the laborers to their employers.

On the whole, I cannot help feeling that Mr. Walker takes a very imperfect view of the extent to which current wages at any moment are the product of previous labor. If it be not over-presumptuous, I will state briefly my own view of the matter, leaving the reader to judge whether it be the true view or not. In the first place, let me say that the customary analysis of capital into fixed and circulating, or auxiliary and remuneratory, or into fixed capital, materials, and wages fund, seems to me not the best analysis for illustrating the full extent of capital and all its relations to production and to wages. I think a more useful analysis for these purposes would be: —

1. Capital in machinery, buildings, land improvements, money, ships, railways, and other plant.

2. Capital in materials at various stages of growth and manufacture.

3. Capital in exchange, or commodity capital, meaning thereby the stocks of finished commodities awaiting exchange.

One advantage of this division over those commonly used would be that it covers the whole ground, which, I think, the others do not.† Another advantage would be that it would draw attention more strongly than the others do to this question which we are considering; namely, the extent to which wages anticipate the product of the labor they reward. The time required for making

* *The Wages Question*, p. 137.

† It ought to be clear, for example, that the first effect of increased efficiency of labor must be, not to raise wages, but to add to capital,— the portions of capital included in 2 and 3. Increase of production is inseparable from increase of capital in these forms.

the exchanges of products (or, what comes to the same thing, the time required for transporting and the stocks required for trading) must not be overlooked in considering how long a delay must ordinarily intervene, in civilized industry, between the outlay of labor and the presence of its desired result. Obviously, sufficient stocks of finished commodities, conveniently placed to enable each producer to select readily and judiciously the precise articles desired for his labor, are as much a necessity as machinery is.

Now, taking one's stand at any point of time, it is obvious that these three masses of wealth are, in reference to that time, products of previous labor, distinguished from other products by the fact that they do not minister to anybody's enjoyment, are not even (those of them that are good for human use) in the possession of those who are to enjoy them. It is also obvious that whatever wages any man may have received for labor devoted to producing these things must have been drawn from some other source than the product of his own industry. It was a simple necessity, in order that the people of the time should be able to carry on production as they do, that all the labor these things cost should be devoted to the mere business of *getting ready* to produce. Up to the point of suitably preparing all the natural agents and completing all the apparatus of production and exchange; also, of procuring and advancing through various stages a sufficient stock of each sort of material to supply every workman in the whole chain of workmen engaged on it from beginning to end; also, of completing a sufficient quantity of every commodity to stock the shops and warehouses and all the channels of trade,— up to the point of completing all these preparations, it was necessary that labor should be given without a particle of enjoyable return of its own producing. That point once reached, commodities may be drawn off for consumption as rapidly as

they are produced. The producers need only to keep the system going. It will turn out every day enough new commodities to make good the consumption of the day, and men who had nothing to do with the self-denial that established the system may presently imagine that they are living from "current production." The man who gets paid for his week's work at the end of the week may flatter himself with the idea that his wages are "paid out of the product of his own industry." But to call this a philosophical view of the subject is, to say the least, not complimentary to philosophy.

If the world were suddenly swept bare of all the results of past labor that are now used in production and exchange, leaving us our present knowledge and skill, the tools necessary for making tools and machinery, but nothing besides save the land in its natural state, how long should we have to labor (supposing our subsistence provided otherwise than by our own labor in the mean time) before we should fully restore the industrial system as it exists at the present moment? How long, beginning at the beginning of every sort of production, should we have to labor and wait before we could again flatter ourselves with producing our wages before we receive them?

I shall not be so rash as to attempt to answer this question; but I will say, without fear of being contradicted, that the answer to it would also be the answer to a question once asked—and, as I think, very imperfectly answered—by Mr. Walker: How largely, in fact, are wages advanced out of capital? *

Let us now imagine that, during the years the community would have to spend in re-equipping production and restocking exchange, a class of men happened to have the power of acquiring day by day, no matter from what source, a supply of commodities answering in all respects

* *The Wages Question*, p. 134. Mr. Walker treats the question as if it were chiefly one of current account between each employer and his laborers.

to the supply that would have been forthcoming in the ordinary way, if no interruption had occurred. What, under those conditions, would be the measure of wages for all other men during the period of preparation for production? Would it be the total supply of commodities received, or that portion of the total supply which the recipients chose to spare from their own consumption for the sake of present service and future gain? I think that in this case we should all agree both as to the measure of wages and as to the extent and reality of the advance. We should also agree, I suppose, in holding that the amount of savings constituting the measure of wages would not be irrespective of the total receipts, though a knowledge of the total receipts would not enable us to predict the amount of the savings. We should also agree, I suppose, in holding that the amount saved to pay wages would not be irrespective of the anticipated future yield of the labor to be paid for, though a knowledge of the future yield would not enable us to make even a confident guess as to the amount of the savings. Even if we knew the total receipts exactly, and could foretell the future yield of re-established industry with perfect certainty, we should still be in the dark as to the amount of savings, and consequently as to the rate of wages, until we knew also the state of mind of the lucky owners of the bonanza. If these happened to be frugal men, wages would be higher: if they happened to be unthrifty, wages would be lower. We should all, I think, be ready to recognize here an element that does not readily submit itself to the yoke of a formula; and we could not confidently say much more than that wages would depend on the amount these men, being the men they are, choose, in view of all the circumstances, to spare from their own consumption for the purpose of hiring laborers. As to wages in this hypothetical case, then, I think we should not find any ground for serious difference.

Yet I conceive that the conditions determining wages in actual life do not differ in any essential respect from those that would determine wages in this imaginary case. We are, in fact, re-equipping industry all the time. The capital in machinery and buildings wears out little by little, and has to be replaced. The stock of capital in materials is constantly passing off into finished commodities, and has to be as constantly renewed. The stocks of finished commodities are drawn down every day by the purchases of consumers, and have to be replenished, in order that exchange may be carried on effectively. The labor bestowed on each of these objects is precisely as far removed from the enjoyable result it has in view as the corresponding labor in our imaginary case would be. There is, therefore, the same cause for an advance of wages, and for the same period, in the one case as in the other, though, in the infinite complexity of actual industry, the fact may be less easy to perceive. Also, those who own the supply of commodities now on hand, and the machinery and materials for making more, have as effective a monopoly in fixing the rate of wages as the receivers of the corresponding supply would have in our imaginary case.

Perhaps enough has been said to indicate that in my opinion it is at least a little premature to say that the wages-fund theory has been "exploded." Some statements of it may no doubt have been fairly open to criticism. It would be strange if the first statements of so complicated a matter as the law of wages had been quite perfect. Defects of exposition we may hope to remove; but the essential principles of the wages-fund theory rest, in my judgment, on too solid foundations to be even greatly shaken. If the fact that the saved products constituting the wages fund come from production has been in the least overlooked, let us have it more clearly insisted on. If there has been any suspicion that the wages fund

means a store of things locked up somewhere before hiring and production begin; or if anybody has regarded the intention to save as differing essentially from other human intentions and not liable to be changed by change of circumstances; or if anybody has ever supposed that the fund for paying wages is anything else than a portion of the commodities that are continually emerging from production; or if the fact that, as a body of wealth, all capital is by turns wages fund, has been sometimes lost sight of; or if it has been assumed anywhere that changes in the efficiency of labor do not react on the fund for paying wages,—if any of these defects, or any other defects, are to be found in existing expositions of the theory, let us by all means endeavor to get rid of them. But it would be poor policy to throw away wheat, in order to be rid of chaff. While thus unable to accept the main propositions for which Mr. Walker has contended, I cannot close without avowing my grateful recognition of the important service he has rendered in relation to this difficult portion of economic theory. If he has established no new doctrine, he has certainly done much towards improving the old. Future writers on these subjects, whatever their opinions may be, cannot safely overlook what he has written. If the treatment of wages shall henceforward dwell less on the mere formula and more on the industrial conditions, less on the arithmetical process and more on the quality of the living men back of the arithmetic, we shall be largely indebted for the improvement to Mr. Walker. This, if not the precise end he has had in view, is at least so far akin to it that he may well regard such an issue of his labors with entire satisfaction.

S. M. MACVANE.